TAXATION and ECONOMIC DEVELOPMENT:

Background Information For a Consultative Process

Honourable Hugh Curtis
Minister of Finance

Province of British Columbia
August 1984

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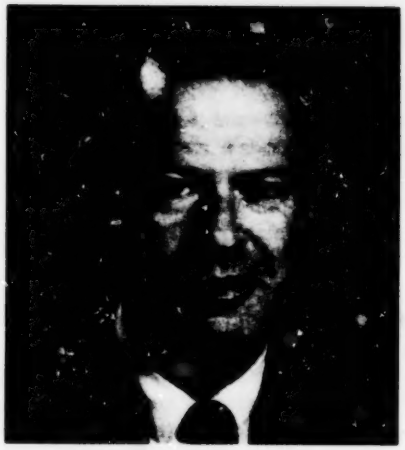

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PREFACE

In my Budget Address of February 20, 1984, I undertook a commitment to conduct a review of the impact of taxation on economic development. A re-examination of government tax policies and practices is timely in view of the very serious challenges faced by businesses in British Columbia in this decade.

The world economy has been undergoing major structural changes in the past several years, signalled most strikingly by the severe international recession of 1981 and 1982. As a province strongly reliant on foreign trade, British Columbia has been seriously affected by these developments.

In particular, British Columbia and other natural resource dependent regions have experienced a slower and less certain recovery in 1983 and 1984 than the major industrial regions of North America. Markets for resource products have weakened substantially and competition has intensified.

In addition, there has been marked instability in world financial markets, evidenced by high and fluctuating interest rates. While this difficult problem has several causes, one clear result is that governments, businesses and households are faced with the need to strengthen their financial positions and reduce their reliance on debt.

The 1983 and 1984 provincial budgets were designed to deal with the new economic and fiscal situation facing British Columbia. The essential thrust has been to restrain the cost and scope of provincial programs in order to establish a more efficient and affordable government sector. This restructuring will contribute to a healthier, more competitive economy in the years to come.

While fiscal discipline remains essential, government economic policy is now focused on the identification and implementation of policies to encourage the growth and development of the economy. The next decade will be characterized by keen competition for world markets, and British Columbians must be prepared to earn increases in employment and incomes through innovation in the way goods and services are produced.

The objective of this paper is to provide basic information on taxation in British Columbia with particular attention given to the taxation of business. It should provide useful background material for those interested in provincial taxation issues, particularly those planning to participate in the consultative meetings to be held in various locations around the province this fall. The main text of the paper has been kept brief, with further information contained in a number of appendices.

No specific taxation proposals are contained in this background material. Indeed, it would be inappropriate for the government to make specific proposals before receiving the input of those interested in, and affected by, taxation. It must be stressed, however, that the government's fundamental concern is with further development of the economy. Those advocating tax reductions should be prepared to show what economic advantages tax reductions would convey, particularly in terms of creation of new, permanent employment opportunities for British Columbians.

After carefully reviewing all submissions, the government intends to develop and introduce, during the next year or two, a limited number of reforms to the provincial tax system. Measures for

simplifying taxation and encouraging the creation of permanent employment in the private sector will be evaluated, and implemented where appropriate benefits can be demonstrated.

Concerned British Columbians are invited to provide written or verbal briefs at one of the consultative meetings, or to send written comments directly to me. I encourage all interested parties to participate in this important undertaking.

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I INTRODUCTION

While the primary purpose of taxation is to raise revenue to finance programs, governments cannot overlook the fact that both the level and structure of taxation affect economic activity. Many economic decisions made by individuals — to consume or save, to invest in one region or another, to work or not work — may be affected by the level and structure of taxation.

Decisions made by businesses to undertake new investment or change production levels can likewise be affected by taxation. In a world where investment capital is increasingly mobile and business conditions are undergoing rapid and dramatic changes, a government must ensure that the tax environment it establishes is competitive and allows businesses to adapt to changing product and market conditions.

Taxation also has repercussions for taxpayers beyond the simple requirement to pay money to the government. The administration of taxes and compliance by the taxpayer can be costly. Such costs have grown as the tax system has become more complex. Complex tax laws are often the by-product of the attempt to achieve tax equity and to ensure that tax is collected fairly and on the same basis in a wide variety of different circumstances. Another major reason for the complexity of taxation statutes has been an accumulation, over many years, of attempts by governments to encourage certain types of social and economic activity by providing special tax incentives for these activities. Finally, as tax levels have increased, various groups of taxpayers have had a greater incentive to devote effort to obtaining special taxation treatment. When any group achieves special treatment, the result is usually more complex tax law.

An indication of the growing complexity of taxation can be found by examining the size of the federal *Income Tax Act*. In 1952, this Act covered 143 pages. Since then it has been amended over seventy times. Consolidations of the Act now reach a thousand pages, and include more than two hundred separate regulations. It is not surprising that an industry of tax lawyers, accountants and public officials has been created to administer, interpret, challenge and enforce compliance with income tax law.

While problems with complexity are usually associated with personal and corporate income taxation, provincial taxes such as sales and property tax are not without problems of this nature. For example, in British Columbia, petroleum fuel is taxed under four different statutes, each applying to a particular use or type of fuel.

In the current economic environment, where competition, productivity and adaptability are of vital importance, one must ask whether Canada's tax law has become excessively complex; whether too much of the nation's wealth and productive effort is dedicated to keeping complicated records, filling out numerous forms and trying to interpret and apply complex legislation to day to day economic decisions.

Finally, in any discussion of taxation, it must be recognized that the effect of taxation on economic decisions is difficult to determine with certainty. Many other factors also affect economic activity and investment decisions, often much more significantly than do tax considerations. These factors include the size and availability of markets, the regulatory environment, wage rates and skill levels, and the location and quality of natural resources. Accordingly, expectations regarding the extent to which tax policy alone can bring about an economic transformation must be modest.

II A REVIEW OF CURRENT BRITISH COLUMBIA TAXES

This section provides both a comparison of Canada's taxation levels with those of other industrialized countries and a comparison of British Columbia's taxation levels with those of selected provinces and states.

There is no completely satisfactory method of comparing taxation levels. Not only are there differences among jurisdictions in the definition of what constitutes a tax, but there are also differences in other factors such as income and public service levels. Caution must therefore be exercised in drawing more than broad conclusions from the data.

International Comparison

Table 1 provides an international comparison of revenue from various taxation sources expressed as a percentage of total economic output for 1982. The table compares Canadian tax revenue from different taxation sources with Organization for Economic Cooperation and Development (OECD) averages. (Member countries of the OECD are: Canada, the United States, the Western European countries, Japan, Australia, New Zealand, Turkey and Greece.)

TABLE 1

INDIVIDUAL TAXES EXPRESSED AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT[1] AT MARKET PRICES IN SELECTED OECD MEMBER COUNTRIES, 1982

	Taxes on Goods and Services	Taxes on Income and Profits	Payroll Taxes	Taxes for Social Security	Property Taxes	Other Taxes	Total
	%	%	%	%	%	%	%
Average of Member Countries	**10.7**	**14.5**	**0.4**	**9.2**	**1.8**	**0.2**	**36.8**
Sweden	12.2	22.2	1.3	14.0	0.5	0.1	50.3
France	13.0	7.9	1.0	18.8	1.6	1.4	43.7
United Kingdom	11.5	15.0	1.3	6.7	5.0	0.1	39.6
Germany	9.9	12.7	—	13.5	1.2	—	37.3
Canada	**12.1**	**15.3**	—	**3.9**	**3.1**	**0.4**	**34.8**
United States	5.3	13.7	—	8.4	3.1	—	30.5
Japan	4.2	12.2	—	8.3	2.4	0.1	27.2

Source: Organization for Economic Cooperation and Development, *Revenue Statistics of OECD Member Countries, 1965–1983.*

Note: Allocation of taxes between categories is based on OECD definitions which may not correspond to definitions used by individual member countries.

This comparison shows that in 1982, the total taxation level in Canada as a percentage of gross domestic product was slightly lower than the OECD average. Canadian taxes were higher than the OECD average on goods and services, income and profits, and property, but much lower than average for social security. Compared to the United States, Canada had higher taxes on goods and services and on income and profits, but lower taxes for social security.

[1] Gross domestic product (GDP) is the value of total economic output within a nation's boundaries. Provincial GDP is the value of economic output within a province.

Interprovincial Comparison

There are a number of different approaches which can be used to compare taxation levels among provinces. The most basic approach is to compare actual tax rates. Such a comparison is provided in Table 2.

TABLE 2

COMPARATIVE PROVINCIAL TAX RATES, JULY 15, 1984

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal income (per cent of basic federal tax)	44[1]	43.5	51[1]	54[1]	48[1]	([2])	58.0	56.5	52.5	60
Corporation income (per cent of taxable income)										
General rate	16	11	16	16	15[3]	5.5	15	15	10	16
Small business rate	8	5	10	10	*Nil*[3]	3	*Nil*	10	10	10
Corporation capital (per cent of taxable paid-up capital)										
Non-financial corporations	0.2	*Nil*	0.3	0.2	0.3	0.45	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	0.6	*Nil*	0.8	0.6	0.6	0.9	*Nil*	*Nil*	*Nil*	1.5
Banks	2.0	*Nil*	0.8	1.9	0.8	0.9	*Nil*	*Nil*	*Nil*	1.5
Insurance premiums (per cent)[4]	2	2	3	3	3	3	3	3	2	3
Gasoline										
Per cent of retail price	20	*Nil*	*Nil*	N/A	20	30	20	20	22	22
Cents per litre	7.66	*Nil*	*Nil*	7.5	8.0	11.85	8.0	9.0	10.0	9.9
Diesel fuel										
Per cent of retail price	([5])	*Nil*	*Nil*	N/A	27	30	23	21	29	26
Cents per litre	8.10	*Nil*	*Nil*	8.6	9.3	10.8	9.3	8.9	12.7	11.6
Retail sales										
General rate (per cent)	7	*Nil*	5	6	7	9	10	10	10	12
Liquor (per cent)	7	*Nil*	10	12	12	9	10	10	37.5[6]	12
Meals (per cent)[7]	7	*Nil*	*Nil*	6	7	10	10	10	10	12
Accommodation (per cent)	7	*Nil*	*Nil*	6	5	*Nil*	10	10	10	12
Tobacco (cents per package of 25 cigarettes)[8]	56	37	67	65	66.5	62.3	75	50	37.5	119.5

[1] British Columbia has a 10 per cent surtax on provincial tax in excess of $3,500, plus an additional 4 per cent surtax (effective January 1, 1984) applied to the sum of provincial tax and the 10 per cent surtax (if applicable). Saskatchewan has a 12 per cent surtax on provincial tax in excess of $4,000. Manitoba has a 20 per cent surtax on the amount by which provincial tax payable exceeds tax payable at a taxable income of $25,000. Ontario has a 5 per cent surtax on provincial tax in excess of $110.80.

[2] Quebec levies its own personal income tax which has an approximate range of 50 to 60 per cent of federal tax.

[3] In Ontario, a 14 per cent corporation income tax rate applies to taxable income derived from manufacturing and processing, mining, logging, farming and fishing operations. Small businesses are exempt from taxation until January 1, 1985.

[4] Tax is payable by insurer. In Saskatchewan, Ontario, Quebec, New Brunswick and Nova Scotia, life, sickness and accident insurance premiums are taxed at 2 per cent and all other premiums are taxed at 3 per cent. In Newfoundland, an additional 12 per cent tax on premiums is payable by the insured. Most provinces levy an additional tax of 1 per cent or less on fire insurance premiums to fund the office of the provincial fire commissioner.

[5] In British Columbia, the tax rate on diesel fuel is equal to the tax rate on gasoline plus 0.44 cents.

[6] In Prince Edward Island, liquor is taxed under the *Health Tax Act* at 25 per cent and under the *Retail Sales Act* at 10 per cent, resulting in a compound tax rate of 37.5 per cent.

[7] A basic exemption for low priced meals exists in most provinces. In British Columbia, meals less than $7.00 are exempt from tax.

[8] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. In Ontario, Quebec, New Brunswick and Newfoundland set rates are applied to a determined retail price. Other provinces tax cigarettes by an amount which cannot be adjusted without legislative amendment. In Prince Edward Island, Newfoundland and Ontario, tobacco products are also subject to retail sales tax.

An interprovincial comparison of tax rates reveals that British Columbia taxes on personal income are relatively low, while taxes on corporate income are at the high end of the range. With

respect to the major consumption taxes—retail sales taxes, fuel taxes and tobacco taxes—British Columbia rates again tend to be relatively low, particularly when compared to rates in Eastern Canada.

Tax rates alone do not provide a complete basis for comparing taxation levels among provinces because rates do not take into account differences in what is taxed. In all provinces, a wide range of special exemptions and deductions apply in the case of all taxes. Caution must be exercised in using tax rates by themselves to evaluate levels of provincial taxation.

Another approach to comparing provincial tax structures is to examine the relative importance of different sources of revenue. In a comparison of this type, it is necessary to consider combined provincial and local government revenue in order to avoid distortion caused by interprovincial differences in the allocation of responsibilities to local governments.

Table 3 compares the sources of provincial and local revenue for British Columbia and for the other nine provinces for the five fiscal years 1979/80 to 1983/84.

TABLE 3

COMPARISON OF PROVINCIAL/LOCAL REVENUE SOURCES FOR THE FIVE YEARS 1979/80 TO 1983/84

Revenue Sources	Total Provincial/Local Revenue			Proportion of Total Revenue	
	All Provinces Excluding British Columbia	British Columbia	Total	All Provinces Excluding British Columbia	British Columbia
	($ millions)			%	%
Capital	$ 52,600	$ 7,900	$ 60,500	19.6	21.6
Labour	20,700	3,200	23,900	7.7	8.7
Consumption	86,100	11,600	97,700	31.9	31.6
Income	79,100	10,200	89,300	29.4	27.8
	238,500	32,900	271,400	88.6	89.7
Resource	30,800	3,800	34,600	11.4	10.3
Total Revenue	$269,300	$36,700	$306,000	100.0	100.0

Source: Unpublished data.

Note: Revenue sources include the following:
Capital —property taxes, corporation capital tax, succession duties;
Labour —payroll taxes, Workers' Compensation Board assessments, medical and hospital premiums;
Consumption—sales taxes, fuel taxes, liquor profits, licences and other;
Income —personal income tax, corporate income tax; and,
Resource —logging, mineral, petroleum and water rentals, royalties and taxes.

This comparison indicates that British Columbia's revenue sources generally parallel the revenue sources of the other provinces. Income taxes make up a lower proportion of revenue in British Columbia compared with the average for the other provinces. This is primarily due to lower than

average personal income tax rates in British Columbia over the period. By contrast, taxes on capital in British Columbia constitute a higher proportion of revenue, although this is partly a statistical aberration caused by the average revenue of the other provinces being reduced by particularly low property tax receipts in one province.

A third basic approach to comparing taxation among provinces is to compare levels of non-resource revenue as a percentage of provincial GDP.

In the case of both British Columbia and the other nine provinces, combined provincial and local government revenue (excluding federal transfers and resource revenue) averaged 16 per cent of provincial gross domestic product (GDP) over the five fiscal years 1979/80 to 1983/84. On the basis of this measure, British Columbia's taxation level is very similar to the level of the other provinces.

A Firm-by-Firm Comparison Among Jurisdictions

The previous subsection provided a broad perspective on the overall level of taxation in British Columbia compared to the other provinces. However, provincial averages and totals do not reveal differences in taxation levels faced by specific businesses in different jurisdictions. Accordingly, a study comparing the taxation situation that specific types of firms would encounter in various areas was commissioned by the Ministry of Finance in 1983 and undertaken by an independent consulting firm. The types of firms and the jurisdictions chosen for review are shown in Table 4.

TABLE 4

REPRESENTATIVE FIRMS AND JURISDICTIONS SELECTED FOR THE COMPARATIVE TAXATION STUDY

Sector and Industry Group	Type of Firm	Jurisdictions Compared
Primary		
Mining	Copper Mine	British Columbia, Ontario, Arizona
Manufacturing		
Wood Products	Sawmill	British Columbia, Ontario, Washington, Oregon
Metal Fabricating	Machine Shop	British Columbia, Ontario, Alberta, Saskatchewan, Quebec
Electronics	High Technology Firm	British Columbia, Ontario, California
Finance	Trust Company	British Columbia, Ontario, Alberta, Quebec
Service		
Hotels	Hotel	British Columbia, Ontario, Alberta, Washington

A model of a representative firm was developed for each jurisdiction and taxes were calculated using two approaches:

1. The "actual-case" approach in which each jurisdiction's firm is taxed in its own jurisdiction; and,
2. The "theoretical-case" approach in which:
   (a) a representative British Columbia firm is taxed under the taxation legislation of all jurisdictions considered; and,
   (b) a representative non-British Columbia firm is taxed under its own and British Columbia's taxation legislation.

The period covered in the review varies among the representative firms. The review of the copper mine encompasses a period of 13 years while that of the high technology firm encompasses a ten-year period. The reviews of the remaining four firms cover a one-year period in each case. With one exception, taxes and tax rates in existence on May 1, 1983, were used in the calculations. The exception is the British Columbia social service tax rate, which was set at the current rate of 7 per cent and not at the 6 per cent rate in effect May 1, 1983.

In the actual-case approach taxes are compared in a realistic situation where other factors, such as revenue and operating costs, are allowed to vary among jurisdictions. In the theoretical-case approach taxes are isolated and compared while all other factors are held constant. Both approaches produced generally consistent results. The results presented in this subsection reflect calculations using the actual-case approach. Results of the theoretical-case approach are contained in Appendix C.

Since the actual-case approach was developed using representative firms with different operating and revenue characteristics, taxes cannot be compared using the dollar totals of taxes. Instead, taxes borne by the representative firms are compared by way of an income based measure and by way of an expense based measure.

Table 5 provides an income based comparison of taxes. Total taxes incurred by each of the representative firms are expressed as a percentage of net income before all taxes, which is defined as gross revenue less all non-tax expenses.

TABLE 5

JURISDICTIONAL RANKING OF TOTAL TAXES

Total Taxes* Expressed as a Percentage of Net Income Before All Taxes

Average Profit Year(s)

Machine Shop		Hotel		Trust Company		Sawmill		High Tech Firm		Copper Mine	
	%		%		%		%		%		%
B.C.	**52.5**	**B.C.**	**65.0**	**B.C.**	**55.7**	Wash.	84.3	Calif.	53.8	**B.C.**	**59.8**
Quebec	49.6	Ontario	59.7	Ontario	54.0	Oregon	83.8	**B.C.**	**44.6**	Ontario	59.6
Alberta	48.4	Wash.	59.7	Alberta	49.7	**B.C.**	**73.3**	Ontario	41.9	Arizona	49.7
Sask.	45.3	Alberta	56.5	Quebec	49.3	Ontario	59.5				
Ontario	41.2										

* including appropriate resource levies, royalties and fees

When an income based measure is used, British Columbia taxes are highest for four of the six firms in the jurisdictions for which a review was undertaken. The results in Table 5 are influenced to some extent by the fact that non-tax expenses relative to revenue are generally higher for British Columbia firms than for non-British Columbia firms. Table C1 of Appendix C shows the results of the income based comparison when the ratio of non-tax expenses to revenue is standardized across jurisdictions.

In order to provide a perspective on the role of taxation in a firm's overall cost structure, Table 6 provides an expense based comparison of taxes. Total taxes incurred by each of the representative firms are expressed, in percentage terms, as a component of total expenses plus income taxes.

TABLE 6

JURISDICTIONAL RANKING OF TOTAL TAXES

Total Taxes* Expressed as a Component of Total Expenses Plus Income Taxes

Average Profit Year(s)

Machine Shop		Hotel		Trust Company		Sawmill		High Tech Firm		Copper Mine	
	%		%		%		%		%		%
Quebec	5.7	Ontario	19.7	Ontario	6.6	Wash.	25.5	Calif.	19.2	Ontario	22.1
B.C.	**5.5**	Wash.	19.1	Quebec	6.4	Oregon	21.7	**B.C.**	**17.3**	Arizona	18.2
Alberta	4.9	**B.C.**	**17.8**	**B.C.**	**6.2**	**B.C.**	**21.4**	Ontario	17.0	**B.C.**	**16.7**
Sask.	4.4	Alberta	15.0	Alberta	6.1	Ontario	13.9				
Ontario	4.2										

* including appropriate resource levies, royalties and fees

When an expense based measure is used, British Columbia taxes are in the middle range for most of the firms for which a review was undertaken. The generally lower rankings of British Columbia firms shown in this comparison reflect, for the most part, higher non-tax expenses relative to revenue for British Columbia firms. Table C2 of Appendix C has been provided to show the results of the expense based comparison when the ratio of non-tax expenses to revenue is standardized across jurisdictions.

Caution should be exercised in using Table 5 and 6 to compare the taxation of firms across different industries. Since firms in different industries often have very different revenue and expense structures, different taxation considerations apply.

Appendix A contains further analysis of the information in Tables 5 and 6 by comparing the components of total taxes. Appendix A also contains a discussion of the methodology used in the Comparative Taxation Study.

Appendix B contains the financial summaries and taxation calculations which form the basis of Tables 5 and 6.

III APPROACHES TO PURSUING ECONOMIC GOALS THROUGH TAXATION POLICY

There are two basic approaches to using taxation policy to pursue the goals of economic growth, economic diversity and job creation.

One approach is to use the tax system as a direct tool to selectively stimulate specific activities or sectors of the economy. Taken to an extreme, this selective approach to tax policy would have numerous targeted tax reductions, exemptions and tax holidays.

The other approach is to use taxation policy to establish a stable and neutral tax environment characterized by rates which are as low as possible, with few special exemptions or incentives. Taken to an extreme, this neutral approach would not promote specific sectors, or reward particular types of economic or social behaviour, by means of the tax system.

It can be argued that a certain degree of selectivity is necessary because, as a minimum, governments should match or exceed incentives in existence in other jurisdictions. Some also argue that governments must recognize the greater value to the economy of certain types of economic activity by creating a taxation environment which favours such activities.

In support of a more neutral approach to taxation it can be argued that economic decisions should, for the most part, be made on the basis of market signals and not be influenced by government sponsored incentives. In addition, lower tax rates for some economic activities under the selective approach imply higher tax rates for others. Taken to an extreme and applied in too many instances, the selective approach would result in a dilution of the incentives, rendering them, to a degree, self-defeating.

Governments have developed and implemented a balance between these two approaches over time. Evidence is being sought, through the consultative process, of the appropriateness of the current balance and of the demonstrable benefits to be gained from additional emphasis on one approach or the other.

IV CONSTRAINTS TO TAX CHANGE

The provincial government's ability to change provincial taxation policies is limited by a number of constraints, some of which are reviewed below.

Jurisdictional Constraints

Under the *Constitution Act, 1867,* the federal government is authorized to raise revenue by any method of taxation, while the provinces are restricted to imposing direct taxes within the province such as property and income taxes. The only exception to the restriction is that provinces may use any system of taxation in respect of non-renewable natural resources, forest resources and electrical energy production. The constitutional constraint is significant in that it precludes provincial access to many revenue sources, such as excise taxes and commodity taxes imposed prior to the retail sales level.

A second jurisdictional constraint stems from the existence of tax collection agreements through which the federal government collects personal and corporate income tax on behalf of most provinces. In return for the benefits of having only one collection agency for both federal and provincial personal and corporate income taxes, these agreements impose significant limitations on provincial flexibility. In entering a tax collection agreement, a province agrees to use the federally determined tax bases. This removes provincial power to alter, for example, the determination of taxable income, exemptions and deductions. There is some provincial scope to introduce tax credits, but these are subject to federal approval.

A provincially administered income tax system would give the government much more flexibility in developing provincial taxation policy, but would also have drawbacks. These include much higher administrative costs for the government combined with an added paperwork burden for taxpayers.

These jurisdictional constraints mean that the provincial government's latitude for making taxation changes is primarily restricted to those taxes directly administered at the provincial and local level. These include:

1. corporation capital tax
2. sales and prepared meal tax
3. hotel room tax
4. tobacco tax
5. petroleum fuel taxes
6. horse racing tax
7. logging tax
8. mining tax
9. mineral resource tax
10. mineral land tax
11. insurance premium tax
12. property taxes

The provincial government may also alter personal and corporate income tax rates. A description of provincial taxes is provided as Table D2 in Appendix D.

Fiscal Constraints

Provincial capacity to raise or lower taxes is also affected by the fiscal environment within which the government operates.

The government of British Columbia is committed to the provision of a relatively high level of essential services, such as health care, and substantial taxation revenue is required to meet these commitments. In fact, the three program areas encompassed by health care, education and social assistance account for more than 65 per cent of the provincial budget.

In recent years the provincial government has been foremost among governments in Canada in its efforts to contain program expenditures. Success in this area has reduced the need to impose higher rates of taxation to compensate for the decline of certain important revenue sources during the recession. However, there are limits to the degree of restraint which can be imposed on programs without seriously affecting the quality of government services. For this reason, the possibility for major taxation reductions, especially over the short-term, is limited.

An alternative to a reduction in the overall level of taxation is for the taxation incidence to be shifted among different groups of taxpayers. For instance, a decrease in the sales tax rate can be offset with an increase in the personal income tax rate, shifting the incidence of taxation from consumers of goods onto income earners. While the opportunity to shift taxes in this way provides some flexibility, it must be recognized that the ultimate effect of restructuring taxation is often to impose the same level of taxation on the same general group of taxpayers, but in a different way. Any restructuring of taxation must therefore be very carefully planned to ensure fairness and guard against unintended negative economic impacts.

A second fiscal constraint relates to the need for governments to maintain an appropriate balance between stable and volatile revenue sources. Revenue from some sources, for example corporate income tax, can fluctuate by 50 per cent or more over a two or three year period. The use of relatively stable revenue sources, such as property and sales taxes, reduces the relative size of fluctuations in total revenue. At the same time, governments must recognize that individuals and businesses can be adversely affected if taxes are not sensitive to changes in their income levels and economic circumstances.

Policy Constraints

A further constraint is the compromise required in any taxation system between divergent policy goals. The goals of economic efficiency, simplicity and equity will often conflict. For example, a taxation system designed to ensure simplicity may lead to inequities and preclude the use of the tax system as an instrument to deliver economic incentives and social benefits. An overriding concern with equity, on the other hand, can result in an excessively complex tax system. The ability of governments to make taxation changes to accomplish any specific goal is therefore constrained by the impact the change has on the achievement of other policy goals.

V SUMMARY

While recognizing that taxation is but one factor which affects economic and business decisions, the provincial government must ensure that its taxation system does not create significant barriers to the goals of economic growth, economic diversity and job creation.

The evidence contained in this paper suggests that Canada's taxation level compares favourably with that of other Western industrial nations. British Columbia's taxation level is generally comparable with the national average. The firm-by-firm comparison suggests that British Columbia's business taxation levels are slightly higher than average among jurisdictions for which a review was undertaken.

The fundamental question for British Columbians is whether the structure of taxation in the province is appropriate to the emerging economic environment. Does it encourage realization of British Columbia's potential in the most fair and efficient manner?

If changes are necessary or desirable to improve the tax system, a choice must be made as to the appropriate balance between selective and neutral tax measures, and any specific measures introduced must reflect the jurisdictional, fiscal and policy constraints faced by the provincial government.

This review represents an opportunity to seek a consensus on future tax changes to promote the well-being of all British Columbians.

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APPENDIX A

COMPARATIVE TAXATION STUDY — COMMENTARY

This appendix provides an overview of the approach and methodology used in the Comparative Taxation Study which was undertaken by an independent consultant for the Ministry of Finance. The appendix also contains tables which review the components of total taxes compared in Tables 5 and 6 of the discussion paper.

The Approach

A model of a representative British Columbia firm has been constructed for each of the six industries chosen for comparison. Also constructed were representative firms for each jurisdiction in which a comparison was undertaken. A summary of these firms and jurisdictions is shown in Table 4 in the discussion paper.

Four of the six representative firms — the machine shop, the trust company, the hotel and the high technology firm — have been made very similar, across the jurisdictions, in terms of size, financial structure and operations. In the case of the sawmill and the copper mine, the characteristics of the representative firm have been varied substantially from jurisdiction to jurisdiction to reflect significantly different operating conditions in each jurisdiction. Each of the representative firms is a "stand-alone" (non-integrated) business.

A study is currently being undertaken, by the consultant, of a representative pulp mill. The jurisdictions to be compared are British Columbia, Ontario and Oregon.

With one exception, tax calculations presented here are based on the taxation system in existence in each jurisdiction as of May 1, 1983. The exception is the British Columbia social service tax rate, which was set at the current rate of 7 per cent and not at the 6 per cent rate in effect on May 1, 1983.

The Methodology of Inter-Jurisdictional Comparison

For each type of firm, taxes have been calculated using two basic approaches:

1. The "actual-case" approach in which each jurisdiction's firm is taxed in its own jurisdiction;
2. The "theoretical-case" approach in which:
   (a) a representative British Columbia firm is taxed under the taxation legislation of all jurisdictions considered; and,
   (b) a representative non-British Columbia firm is taxed under its own and British Columbia's tax legislation.

Approaches 2 (a) and 2 (b) isolate the effects of the tax factors by holding constant the characteristics of the firm so that the various tax systems can be applied to a single firm. Approach 1 allows all factors, including the operating characteristics of the firm, to vary. By first comparing the results of the theoretical cases to ensure they are not inconsistent, and then comparing these results to those of approach 1, it is possible to isolate both the tax and the non-tax factors affecting a firm's profitability.

An example using the copper mine illustrates the distinctions among the approaches. The British Columbia representative copper mine is an open pit mine, while the Ontario representative copper mine is an underground mine. Operating characteristics vary dramatically. Approach 2 (b) compares taxes payable by the Ontario mine operating in Ontario with taxes payable by the same Ontario mine when the British Columbia tax regime is applied to it. Approach 2 (a) compares taxes payable by the British Columbia mine operating in British Columbia with taxes payable by the same British Columbia mine when the Ontario tax regime is applied to it. Approach 1 compares taxes payable by the British Columbia mine operating in British Columbia and the Ontario mine operating in Ontario. Using these approaches allows the tax factors to be isolated from the non-tax factors, the latter being determined by the very different characteristics of the two representative copper mines.

While each of the approaches provides a different perspective on taxation in British Columbia, the results obtained from all approaches were reasonably consistent. For ease of review, financial data in the discussion paper, this appendix and Appendix B, reflect approach 1. Appendix C contains the results of the theoretical-case approach.

Categorization of Taxes

Individual taxes were grouped into the following three categories:

—fixed taxes (such as property taxes) which do not vary with short-term changes in business conditions;

—volume sensitive taxes (such as fuel taxes) which vary with the volume of inputs or gross revenue and are therefore somewhat responsive to business conditions; and,

—income sensitive taxes, which vary with income levels and are therefore highly responsive to business conditions.

The taxes contained within each category are shown in Table A1. Stumpage, while not a tax, is of interest and was also calculated.

TABLE A1

CATEGORIZATION OF TAXES

Fixed Taxes	Volume Sensitive Taxes	Income Taxes
Property Corporation Capital	Payroll (Canada — UIC/CPP/WCB) (U.S. — FICA/FUTA/WCB) Sales Excise and Tariffs Franchise (U.S.) Fuel Miscellaneous	Federal Provincial/State Mining/Logging

Results by Tax Category

Tables 5 and 6 of the discussion paper compare total taxes. This section compares each of the three categories of total taxes. As discussed in the body of the paper, taxes can be compared using either an income based or an expense based measure. In order to obtain a better understanding of the level of taxation among jurisdictions, taxes which are related to expenditures are compared to total expenses, and taxes related to income are compared to income.

Table A2 compares, for each representative firm, in each jurisdiction, fixed taxes (excluding stumpage) as a component of total expenses.

TABLE A2

FIXED TAXES EXPRESSED AS A COMPONENT OF TOTAL EXPENSES

Machine Shop		Hotel		Trust Company		Sawmill		High Tech Firm		Copper Mine	
	%		%		%		%		%		%
Quebec	.9	**B.C.**	**5.4**	Quebec	.8	**B.C.**	**1.4**	Ontario	.9	Arizona	4.3
B.C.	**.7**	Ontario	4.6	Ontario	.6	Oregon	.9	**B.C.**	**.6**	**B.C.**	**3.8**
Ontario	.7	Alberta	3.4	**B.C.**	**.4**	Wash.	.7	Calif.	.2	Ontario	2.3
Alberta	.6	Wash.	1.4	Alberta	.1	Ontario	.5				
Sask.	.3										

Table A2 indicates that fixed taxes (property taxes and corporation capital taxes) are less than 1 per cent of expenses except for the hotel and copper mine and, in the British Columbia case, for the sawmill.

Table A3 compares, for each representative firm, in each jurisdiction, fixed taxes (excluding stumpage) as a component of total expenses.

TABLE A3

VOLUME SENSITIVE TAXES EXPRESSED AS A COMPONENT OF TOTAL EXPENSES

Machine Shop		Hotel		Trust Company		Sawmill		High Tech Firm		Copper Mine	
	%		%		%		%		%		%
Quebec	4.1	Wash.	7.5	Quebec	.5	Wash.	4.2	Calif.	3.2	**B.C.**	**5.9**
B.C.	**4.0**	**B.C.**	**2.9**	Ontario	.5	Oregon	3.9	**B.C.**	**2.7**	Arizona	3.0
Alberta	3.5	Ontario	2.8	**B.C.**	**.5**	**B.C.**	**2.9**	Ontario	2.1	Ontario	2.8
Sask.	3.1	Alberta	1.8	Alberta	.5	Ontario	1.9				
Ontario	3.0										

Table A3 indicates that volume sensitive taxes are more significant to firms than are fixed taxes in that they are a higher component of total expenses. Higher volume sensitive taxes in Washington, Oregon and California reflect a greater reliance on payroll related taxes in those jurisdictions.

Table A4 compares taxes on income as a percentage of income before income taxes for each representative firm and for each jurisdiction.

TABLE A4

TAXES ON INCOME AS A PERCENTAGE OF INCOME BEFORE INCOME TAXES

Machine Shop[1]		Hotel		Trust Company		Sawmill		High Tech Firm[2]		Copper Mine[3]	
	%		%		%		%		%		%
Sask.	16.9	**B.C.**	**52.1**	**B.C.**	**52.1**	Oregon	55.0	Calif.	49.7	Ontario	54.5
B.C.	**15.0**	Ontario	49.9	Ontario	49.9	Wash.	50.1	**B.C.**	**40.3**	**B.C.**	**40.6**
Alberta	12.2	Alberta	47.1	Alberta	47.2	**B.C.**	**44.3**	Ontario	38.1	Arizona	39.1
Quebec	10.5	Wash.	46.5	Quebec	44.3	Ontario	41.9				
Ontario	7.6										

[1] The lower percentages for the machine shop reflect the substantially lower income tax rates applied to small business income.

[2] The percentages for the high technology firm are the effective percentages over the 10-year period for which a review was undertaken. These percentages reflect small business income tax rates applied to income earned in early years of operation and general income tax rates applied to income earned in later years.

[3] The percentages shown for the copper mine are the effective percentages over the 13-year period for which a review was undertaken. These percentages reflect an average of the income tax rates applied in later years when the mines incur tax, and the absence of any tax liability in earlier years. (The maximum income tax rates for copper mining in each jurisdiction are: Ontario, 80%; British Columbia, 69.5%; and Arizona, 51.7%.)

Table A4 indicates that British Columbia's effective rates of income related taxes are generally higher than those in the other Canadian jurisdictions selected for comparison. The significant difference between the British Columbia and Ontario rates shown for the copper mine reflect substantially higher mining taxes in Ontario.

APPENDIX B

FINANCIAL AND TAXATION CALCULATIONS — ACTUAL-CASE APPROACH

This appendix contains the income statements, tax summaries, tax calculations and notes for each of the representative firms using the actual-case approach.

These figures provide the basis for the summary tables in the discussion paper and in Appendix A.

MACHINE SHOP

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia Machine Shop	Alberta Machine Shop	Saskatchewan Machine Shop	Ontario Machine Shop	Quebec Machine Shop
	$	$	$	$	$
REVENUE	2,615,000	2,615,000	2,459,000	2,380,000	2,354,000
EXPENSES					
Non-Tax	2,352,000	2,365,000	2,234,000	2,152,000	2,100,000
Fixed Taxes	17,000	16,000	6,000	15,000	21,000
Volume Sensitive Taxes	99,000	87,000	71,000	68,000	90,000
Total	2,468,000	2,468,000	2,311,000	2,235,000	2,211,000
INCOME BEFORE INCOME TAX	147,000	147,000	148,000	145,000	143,000
Income Tax	22,000	18,000	25,000	11,000	15,000
NET INCOME	125,000	129,000	123,000	134,000	128,000

II. TAX SUMMARY (Average Profit Year)

	$	$	$	$	$
Federal					
Volume Sensitive Taxes	51,000	51,000	44,000	44,000	43,000
Income Tax	12,000	12,000	12,000	11,000	11,000
	63,000	63,000	56,000	55,000	54,000
Provincial/Local					
Fixed and Volume Sensitive Taxes	65,000	52,000	33,000	39,000	68,000
Income Tax	10,000	6,000	13,000	—	4,000
	75,000	58,000	46,000	39,000	72,000

III. TAX COMPARISONS (Average Profit Year)

	British Columbia Machine Shop	Alberta Machine Shop	Saskatchewan Machine Shop	Ontario Machine Shop	Quebec Machine Shop
Income Based Comparison					
Net Income Before All Taxes	$263,000	$250,000	$225,000	$228,000	$254,000
Total Taxes	$138,000	$121,000	$102,000	$94,000	$126,000
Tax Percentage	52.5%	48.4%	45.3%	41.2%	49.6%
Expense Based Comparison					
Total Expenses Plus Income Tax	$2,490,000	$2,486,000	$2,336,000	$2,246,000	$2,226,000
Total Taxes	$138,000	$121,000	$102,000	$94,000	$126,000
Tax Component	5.5%	4.9%	4.4%	4.2%	5.7%

NOTES:

1. In all jurisdictions the representative firm is an owner-operated corporation, founded 15 years ago. The firm carries out two major types of work:
   (a) the production of construction equipment parts; and
   (b) the repair of industrial and construction equipment.
2. The representative firms in each jurisdiction are assumed to be in identical financial positions at the outset of the year under review, 1983. Total opening assets are $1,330,000.
3. Different revenues and expenses noted in the summary income statements reflect different pricing policies and costs in the various jurisdictions.

HOTEL

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia Hotel	Alberta Hotel	Ontario Hotel	Washington Hotel
	$	$	$	$
REVENUE	6,349,000	6,664,000	5,695,000	5,386,000
EXPENSES				
Non-Tax	4,764,000	5,081,000	4,036,000	3,861,000
Fixed Taxes	279,000	183,000	202,000	60,000
Volume Sensitive Taxes	149,000	97,000	123,000	318,000
Total	5,192,000	5,361,000	4,361,000	4,239,000
INCOME BEFORE INCOME TAX	1,157,000	1,303,000	1,334,000	1,147,000
Income Tax	603,000	614,000	666,000	533,000
NET INCOME	554,000	689,000	668,000	614,000

II. TAX SUMMARY (Average Profit Year)

Federal	$	$	$	$
Volume Sensitive Taxes	87,000	81,000	65,000	115,000
Income Tax	418,000	470,000	482,000	533,000
	505,000	551,000	547,000	648,000
Provincial/State/Local				
Fixed and Volume Sensitive Taxes	341,000	199,000	260,000	263,000
Income Tax	185,000	144,000	184,000	—
	526,000	343,000	444,000	263,000

III. TAX COMPARISONS (Average Profit Year)

	British Columbia Hotel	Alberta Hotel	Ontario Hotel	Washington Hotel
Income Based Comparison				
Net Income Before All Taxes	$1,585,000	$1,583,000	$1,659,000	$1,525,000
Total Taxes	$1,031,000	$894,000	$991,000	$911,000
Tax Percentage	65.0%	56.5%	59.7%	59.7%
Expense Based Comparison				
Total Expenses Plus Income Tax	$5,795,000	$5,975,000	$5,027,000	$4,772,000
Total Taxes	$1,031,000	$894,000	$991,000	$911,000
Tax Component	17.8%	15.0%	19.7%	19.1%

NOTES:

1. In all jurisdictions the representative firm is a private corporation, affiliated with a major hotel chain. The hotel is assumed to have been constructed 5 years ago at a site near an urban airport. The hotel has 180 rooms with an assumed occupancy rate of 75 per cent for the year under review, 1983.
2. The representative firms in each jurisdiction are assumed to be in identical financial positions at the outset of the year under review. Total opening assets are $5,640,000.
3. Each firm has identical revenue from room rentals but varying revenue from other sources such as food and beverages, to reflect different operating characteristics in the various jurisdictions.

TRUST COMPANY

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia Trust Company	Alberta Trust Company	Ontario Trust Company	Quebec Trust Company
	$	$	$	$
REVENUE	15,108,000	15,108,000	15,108,000	15,108,000
EXPENSES				
Non-Tax	13,502,000	13,350,000	13,370,000	13,272,000
Fixed Taxes	50,000	20,000	76,000	102,000
Volume Sensitive Taxes	71,000	62,000	64,000	65,000
Total	13,623,000	13,432,000	13,510,000	13,439,000
INCOME BEFORE INCOME TAX	1,485,000	1,676,000	1,598,000	1,669,000
Income Tax	773,000	791,000	798,000	739,000
NET INCOME	712,000	885,000	800,000	930,000

II. TAX SUMMARY (Average Profit Year)

Federal	$	$	$	$
Volume Sensitive Taxes	59,000	58,000	57,000	56,000
Income Tax	539,000	609,000	581,000	607,000
	598,000	667,000	638,000	663,000
Provincial/Local				
Fixed and Volume Sensitive Taxes	62,000	24,000	83,000	111,000
Income Tax	234,000	182,000	217,000	132,000
	296,000	206,000	300,000	243,000

III. TAX COMPARISONS (Average Profit Year)

	British Columbia Trust Company	Alberta Trust Company	Ontario Trust Company	Quebec Trust Company
Income Based Comparison				
Net Income Before All Taxes	$1,606,000	$1,758,000	$1,738,000	$1,836,000
Total Taxes	$894,000	$873,000	$938,000	$906,000
Tax Percentage	55.7%	49.7%	54.0%	49.3%
Expense Based Comparison				
Total Expenses Plus Income Tax	$14,396,000	$14,223,000	$14,308,000	$14,178,000
Total Taxes	$894,000	$873,000	$938,000	$906,000
Tax Component	6.2%	6.1%	6.6%	6.4%

NOTES:

1. In all jurisdictions the representative firm is a widely-held corporation with all branch offices located in the province in which the company is headquartered. All office facilities are assumed to be in downtown locations in major urban centres.
2. The representative firms in each jurisdiction are assumed to be in identical financial positions at the outset of the year under review, 1983. Total opening assets are $65,400,000.
3. Revenue is identical for all locations and is derived from the following activities: (a) deposit services; (b) mortgage services; (c) custodial and trust services; and (d) investments in real estate.

SAWMILL

I. SUMMARY INCOME STATEMENTS (Average Profit Year — See Note 3)

	British Columbia Sawmill	Ontario Sawmill	Washington Sawmill	Oregon Sawmill
	$	$	$	$
REVENUE	30,330,000	18,506,000	22,234,000	21,160,000
EXPENSES				
Non-Tax	22,124,000	14,549,000	15,826,000	15,891,000
Fixed Taxes	369,000	77,000	143,000	177,000
Volume Sensitive Taxes	767,000	300,000	846,000	758,000
Stumpage	3,137,000	826,000	3,407,000	2,437,000
Total	26,397,000	15,752,000	20,222,000	19,263,000
INCOME BEFORE INCOME TAXES	3,933,000	2,754,000	2,012,000	1,897,000
Income Taxes	1,743,000	1,153,000	1,008,000	1,044,000
NET INCOME	2,190,000	1,601,000	1,004,000	853,000

II. TAX SUMMARY (Average Profit Year — See Note 3)

Federal	$	$	$	$
Volume Sensitive Taxes	260,000	152,000	273,000	274,000
Income Tax	976,000	813,000	1,008,000	880,000
	1,236,000	965,000	1,281,000	1,154,000
Provincial/State/Local				
Fixed and Volume Sensitive Taxes	876,000	225,000	716,000	661,000
Stumpage	3,137,000	826,000	3,407,000	2,437,000
Income Taxes	767,000	340,000	—	164,000
	4,780,000	1,391,000	4,123,000	3,262,000

III. TAX COMPARISONS (Average Profit Year—See Note 3)

Income Based Comparison	British Columbia Sawmill	Ontario Sawmill	Washington Sawmill	Oregon Sawmill
Net Income Before All Taxes and Stumpage	$8,206,000	$3,957,000	$6,408,000	$5,269,000
Total Taxes Plus Stumpage	$6,016,000	$2,356,000	$5,404,000	$4,416,000
Tax Percentage	73.3%	59.5%	84.3%	83.8%
Expense Based Comparison				
Total Expenses Plus Income Taxes	$28,140,000	$16,905,000	$21,230,000	$20,307,000
Total Taxes Plus Stumpage	$6,016,000	$2,356,000	$5,404,000	$4,416,000
Tax Component	21.4%	13.9%	25.5%	21.7%

NOTES:

1. In all jurisdictions the representative firm is a "stand-alone" sawmill, originally constructed in 1973, which underwent modernization in 1980. The primary product of the sawmill is kiln-dried dimension lumber produced principally for the North American market.
2. The British Columbia mill is assumed to be located in central British Columbia, has total opening assets of $14,500,000 and production capacity of 100 million board feet per year. The Ontario mill is located near Timmins, has total opening assets of $8,500,000 and production capacity of 50 million board feet per year. The Washington and Oregon mills are coastal mills, have total opening assets of $9,800,000 and $9,600,000 respectively and production capacity of 60 million board feet per year.
3. Lumber prices do not reflect current market conditions but instead reflect market prices characteristic of a stronger market. This lumber pricing characteristic was developed to quantify normal stumpage costs rather than "minimum stumpage" applied in British Columbia during periods of low lumber prices. If current lumber prices were assumed in the calculations, British Columbia stumpage would decline in relation to stumpage in other jurisdictions.
4. Since stumpage is a significant component of the cost of timber purchased by the mill, it has, for these calculations, been calculated in all jurisdictions and is shown separately.

HIGH TECHNOLOGY FIRM

I. SUMMARY INCOME STATEMENTS (Average Profit Period — See Note 3)

	British Columbia High Tech Firm	Ontario High Tech Firm	California High Tech Firm
	$	$	$
REVENUE	10,413,000	10,413,000	10,125,000
EXPENSES			
Non-Tax	7,088,000	7,001,000	7,017,000
Fixed Taxes	42,000	62,000	16,000
Volume Sensitive Taxes	198,000	148,000	235,000
Total	7,328,000	7,211,000	7,268,000
INCOME BEFORE INCOME TAX	3,085,000	3,202,000	2,857,000
Income Tax	1,244,000	1,220,000	1,420,000
NET INCOME	1,841,000	1,982,000	1,437,000

II. TAX SUMMARY (Average Profit Period — See Note 3)

	$	$	$
Federal			
Volume Sensitive Taxes	99,000	100,000	119,000
Income Tax	775,000	807,000	1,160,000
	874,000	907,000	1,279,000
Provincial/State/Local			
Fixed and Volume Sensitive Taxes	141,000	110,000	132,000
Income Tax	469,000	413,000	260,000
	610,000	523,000	392,000

III. TAX COMPARISONS (Average Profit Period—See Note 3)

	British Columbia High Tech Firm	Ontario High Tech Firm	California High Tech Firm
Income Based Comparison			
Net Income Before All Taxes	$3,325,000	$3,412,000	$3,108,000
Total Taxes	$1,484,000	$1,430,000	$1,671,000
Tax Percentage	44.6%	41.9%	53.8%
Expense Based Comparison			
Total Expenses Plus Income Tax	$8,572,000	$8,431,000	$8,688,000
Total Taxes	$1,484,000	$1,430,000	$1,671,000
Tax Component	17.3%	17.0%	19.2%

NOTES:

1. The representative firm is a "stand-alone" two person corporate partnership, manufacturing electronic control devices for industrial applications and providing consulting services. A 10-year period of operations is reviewed, commencing with the firm's inception in 1983.
2. The data shown in the summary income statements represents the present value of the 10-year financial results of the representative firms, discounted at 15% per annum.
3. Characteristic of successful firms in this industry, average sales growth is approximately 45 per cent per year, commencing with sales of $90,000 in 1983. Slightly lower revenue in the California representative firm reflects lower consulting revenue in that jurisidiction.

COPPER MINE

I. SUMMARY INCOME STATEMENTS (Average Profit Period — See Note 3)

	British Columbia Copper Mine	Ontario Copper Mine	Arizona Copper Mine
	$	$	$
REVENUE	2,258,600,000	2,643,276,000	3,813,744,000
EXPENSES			
Non-Tax	1,691,846,000	1,790,753,000	2,632,037,000
Fixed Taxes	71,924,000	43,284,000	122,356,000
Volume Sensitive Taxes	111,393,000	52,295,000	84,346,000
Total	1,875,163,000	1,886,332,000	2,838,739,000
INCOME BEFORE INCOME TAXES	383,437,000	756,944,000	975,005,000
Income Taxes	155,600,000	412,602,000	380,860,000
NET INCOME	227,837,000	344,342,000	594,145,000

II. TAX SUMMARY (Average Profit Period — See Note 3)

	$	$	$
Federal			
Volume Sensitive Taxes	37,355,000	27,655,000	51,278,000
Income Tax	58,330,000	159,946,000	306,562,000
	95,685,000	187,601,000	357,840,000
Provincial/State/Local			
Fixed and Volume Sensitive Taxes	145,962,000	67,924,000	155,424,000
Income Taxes	97,270,000	252,656,000	74,298,000
	243,232,000	320,580,000	229,722,000

III. TAX COMPARISONS (Average Profit Period—See Note 3)

	British Columbia Copper Mine	Ontario Copper Mine	Arizona Copper Mine
Income Based Comparison			
Net Income Before All Taxes	$566,754,000	$852,523,000	$1,181,707,000
Total Taxes	$338,917,000	$508,181,000	$587,562,000
Tax Percentage	59.8%	59.6%	49.7%
Expense Based Comparison			
Total Expenses Plus Income Taxes	$2,030,763,000	$2,298,934,000	$3,219,599,000
Total Taxes	$338,917,000	$508,181,000	$587,562,000
Tax Component	16.7%	22.1%	18.2%

NOTES:

1. The British Columbia mine is an open-pit mine with a total capital investment of $318,000,000 and a mill throughput of 35,000 tonnes per day. The Ontario mine is an underground mine with a total capital investment of $237,000,000 and a mill throughput of 5,000 tonnes per day. The Arizona mine is an open-pit mine with a total capital investment of $482,000,000 and a mill throughput of 45,000 tonnes per day. The grades of copper and values of other ores such as gold and silver vary significantly among the mines.
2. The data shown in the summary income statements represent the undiscounted 13 year financial results of a new copper mine, operating for 10 years (1986–1995) following a pre-production period of 3 years (1983–1985).
3. To ensure that the firm has taxable income for purposes of assessing the impact of income tax, copper prices assumed in the calculation of revenue do not reflect current market conditions but instead reflect the market price characteristic of a stronger market ($1.00 U.S. per pound).
4. Since income taxes reflect the write-off of virtually all capital costs, these costs, rather than depreciation expense, have been included in non-tax expenses.

APPENDIX C

FINANCIAL AND TAXATION CALCULATIONS — THEORETICAL-CASE APPROACH

The Methodology of Inter-Jurisdictional Comparison

This appendix contains the income statements, tax summaries and tax calculations for the British Columbia representative firm using the theoretical-case approach. As explained in Appendix A, the theoretical-case approach involves two comparisons:

(i) the taxes a representative British Columbia firm would pay in British Columbia compared with the taxes the same firm would pay in other jurisdictions; and

(ii) the taxes a representative firm in another jurisdiction would pay in that jurisdiction compared with the taxes the same firm would pay in British Columbia.

This second comparison provides a valuable check on the tax calculations undertaken in the first comparison since any changes in the tax burden calculated in (i) should always be mirrored (but in the opposite direction) by changes in the tax burden calculated in (ii).

The results of comparison (i) are included in this Appendix.

Results

Tables C1 and C2 provide a jurisdictional ranking of total taxes of a representative British Columbia firm taxed in British Columbia and other jurisdictions. The same bases (net income before all taxes and total expenses plus income taxes) are used as were used for the actual-case approach presented in Tables 5 and 6 in the body of the paper.

TABLE C1

JURISDICTIONAL RANKING OF TOTAL TAXES

Total Taxes* Expressed as a Percentage of Net Income Before All Taxes

Average Profit Year(s)

British Columbia Machine Shop		British Columbia Hotel		British Columbia Trust Company		British Columbia Sawmill		British Columbia High Tech Firm		British Columbia Copper Mine	
Taxed in	%	Taxed in	%	Taxed in	%	Taxed in	%	Taxed in	%	Taxed in	%
Quebec	55.1	**B.C.**	**65.0**	**B.C.**	**55.7**	Oregon	74.1	Calif.	54.0	Ontario	61.0
B.C.	**52.5**	Ontario	61.4	Ontario	54.2	**B.C.**	**73.3**	**B.C.**	**44.6**	**B.C.**	**59.8**
Alberta	47.9	Wash.	61.1	Quebec	50.1	Wash.	72.0	Ontario	42.3	Arizona	54.1
Sask.	45.2	Alberta	56.9	Alberta	49.9	Ontario	57.8				
Ontario	41.4										

* including appropriate resource levies, royalties and fees.

TABLE C2

JURISDICTIONAL RANKING OF TOTAL TAXES

Total Taxes* Expressed as a Component of Total Expenses Plus Income Taxes

Average Profit Year(s)

British Columbia Machine Shop		British Columbia Hotel		British Columbia Trust Company		British Columbia Sawmill		British Columbia High Tech Firm		British Columbia Copper Mine	
Taxed in	%	Taxed in	%	Taxed in	%	Taxed in	%	Taxed in	%	Taxed in	%
Quebec	5.8	**B.C.**	**17.8**	**B.C.**	**6.2**	Oregon	21.6	Calif.	20.2	Ontario	17.0
B.C.	**5.5**	Ontario	17.0	Ontario	6.1	**B.C.**	**21.4**	**B.C.**	**17.3**	**B.C.**	**16.7**
Alberta	5.1	Wash.	16.9	Quebec	5.6	Wash.	21.1	Ontario	16.5	Arizona	15.4
Sask.	4.8	Alberta	15.9	Alberta	5.6	Ontario	17.7				
Ontario	4.4										

* including appropriate resource levies, royalties and fees.

In the case of the hotel, trust company and the high technology firm, only minor variances occur between the results calculated by the theoretical-case approach and by the actual-case approach, for both the income based and expense based comparisons.

In the case of the machine shop for the income based comparison, the only significant variance exists in the higher taxes borne by the representative British Columbia firm taxed under the Quebec tax regime (the theoretical-case approach) compared to the taxes borne by the representative Quebec firm taxed in Quebec (the actual-case approach). This is primarily the result of higher Workers' Compensation Board rates in Quebec applied to higher wage costs included in the British Columbia representative firm.

In the case of the sawmill, the tax burden calculated for the British Columbia sawmill, when taxed under the Washington and Oregon tax regimes (the theoretical-case approach), is lower than the tax burden calculated for the Washington and Oregon sawmills taxed in their own jurisdiction (the actual-case approach). This difference primarily relates to stumpage.

Stumpage is applied differently for different kinds of wood. Since the species of wood cut by the representative British Columbia mill is different from the species of wood cut by the representative Washington and Oregon mills, the actual-case approach therefore involves different stumpage systems.

The theoretical-case approach holds constant all operating characteristics, including the species of wood cut by the sawmill. Accordingly, when the British Columbia sawmill is taxed, using the Washington and Oregon tax systems, a different stumpage system is applied than was applied to the Washington and Oregon sawmill in their jurisdictions.

In the case of the copper mine, for the income based comparison, the Arizona tax burden is less for both the theoretical-case approach and the actual-case approach. Although there is a different ranking between the British Columbia and Ontario tax burdens depending upon the approach that is chosen, the percentage differences that result in the change in ranking are minimal.

In the case of the copper mine, for the expense based comparison, the British Columbia tax burden is considerably lower compared to the other jurisdictions, particularly Ontario, when using the actual-case approach as opposed to using the theoretical-case approach. This difference results from the very different operating characteristics of the representative mines. In the case of Ontario, for example, higher ore grades permit higher revenues to be earned by the mine for approximately the same expenditure. This situation provides an opportunity for the province to levy higher taxes. As a component of total expenses, these taxes are higher when compared to the representative British Columbia mine. As a percentage of net income before all taxes, however, the taxes for the two mines are very similar.

The remainder of this appendix contains the data from which the theoretical-case results were calculated.

BRITISH COLUMBIA MACHINE SHOP
TAXED IN THE INDICATED JURISDICTION

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia	Alberta	Saskatchewan	Ontario	Quebec
	$	$	$	$	$
REVENUE	2,615,000	2,615,000	2,615,000	2,615,000	2,615,000
EXPENSES					
Non-Tax	2,352,000	2,352,000	2,352,000	2,352,000	2,352,000
Fixed Taxes	17,000	16,000	6,000	15,000	21,000
Volume Sensitive Taxes	99,000	90,000	83,000	80,000	110,000
Total	2,468,000	2,458,000	2,441,000	2,447,000	2,483,000
INCOME BEFORE INCOME TAX	147,000	157,000	174,000	168,000	132,000
Income Tax	22,000	20,000	30,000	14,000	14,000
NET INCOME	125,000	137,000	144,000	154,000	118,000

II. TAX SUMMARY (Average Profit Year)

	$	$	$	$	$
Federal					
Volume Sensitive Taxes	51,000	51,000	51,000	51,000	51,000
Income Tax	12,000	12,000	14,000	14,000	10,000
	63,000	63,000	65,000	65,000	61,000
Provincial/Local					
Fixed and Volume Sensitive Taxes	65,000	55,000	38,000	44,000	80,000
Income Tax	10,000	8,000	16,000	—	4,000
	75,000	63,000	54,000	44,000	84,000

III. TAX COMPARISONS (Average Profit Year)

Income Based Comparison					
Net Income Before All Taxes	$263,000	$263,000	$263,000	$263,000	$263,000
Total Taxes	$138,000	$126,000	$119,000	$109,000	$145,000
Tax Percentage	52.5%	47.9%	45.2%	41.4%	55.1%
Expense Based Comparison					
Total Expenses Plus Income Tax	$2,490,000	$2,478,000	$2,471,000	$2,461,000	$2,497,000
Total Taxes	$138,000	$126,000	$119,000	$109,000	$145,000
Tax Component	5.5%	5.1%	4.8%	4.4%	5.8%

BRITISH COLUMBIA HOTEL
TAXED IN THE INDICATED JURISDICTION

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia	Alberta	Ontario	Washington
	$	$	$	$
REVENUE	6,349,000	6,349,000	6,349,000	6,349,000
EXPENSES				
Non-Tax	4,764,000	4,764,000	4,764,000	4,764,000
Fixed Taxes	279,000	183,000	202,000	60,000
Volume Sensitive Taxes	149,000	111,000	163,000	363,000
Total	5,192,000	5,058,000	5,129,000	5,187,000
INCOME BEFORE INCOME TAX	1,157,000	1,291,000	1,220,000	1,162,000
Income Tax	603,000	608,000	608,000	545,000
NET INCOME	554,000	683,000	612,000	617,000

II. TAX SUMMARY (Average Profit Year)

Federal	$	$	$	$
Volume Sensitive Taxes	87,000	87,000	87,000	137,000
Income Tax	418,000	466,000	440,000	545,000
	505,000	553,000	527,000	682,000
Provincial/State/Local				
Fixed and Volume Sensitive Taxes	341,000	207,000	278,000	286,000
Income Tax	185,000	142,000	168,000	—
	526,000	349,000	446,000	286,000

III. TAX COMPARISONS (Average Profit Year)

Income Based Comparison				
Net Income Before All Taxes	$1,585,000	$1,585,000	$1,585,000	$1,585,000
Total Taxes	$1,031,000	$902,000	$973,000	$968,000
Tax Percentage	65.0%	56.9%	61.4%	61.1%
Expense Based Comparison				
Total Expenses Plus Income Tax	$5,795,000	$5,666,000	$5,737,000	$5,732,000
Total Taxes	$1,031,000	$902,000	$973,000	$968,000
Tax Component	17.8%	15.9%	17.0%	16.9%

BRITISH COLUMBIA TRUST COMPANY
TAXED IN THE INDICATED JURISDICTION

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia	Alberta	Ontario	Quebec
	$	$	$	$
REVENUE	15,108,000	15,108,000	15,108,000	15,108,000
EXPENSES				
Non-Tax	13,502,000	13,502,000	13,502,000	13,502,000
Fixed Taxes	50,000	20,000	75,000	101,000
Volume Sensitive Taxes	71,000	63,000	65,000	69,000
Total	13,623,000	13,585,000	13,642,000	13,672,000
INCOME BEFORE INCOME TAX	1,485,000	1,523,000	1,466,000	1,436,000
Income Tax	773,000	718,000	731,000	634,000
NET INCOME	712,000	805,000	735,000	802,000

II. TAX SUMMARY (Average Profit Year)

Federal	$	$	$	$
Volume Sensitive Taxes	59,000	59,000	59,000	59,000
Income Tax	539,000	553,000	532,000	521,000
	598,000	612,000	591,000	580,000
Provincial/Local				
Fixed and Volume Sensitive Taxes	62,000	24,000	81,000	111,000
Income Tax	234,000	165,000	199,000	113,000
	296,000	189,000	280,000	224,000

III. TAX COMPARISONS (Average Profit Year)

Income Based Comparison				
Net income Before All Taxes	$1,606,000	$1,606,000	$1,606,000	$1,606,000
Total Taxes	$894,000	$801,000	$871,000	$804,000
Tax Percentage	55.7%	49.9%	54.2%	50.1%
Expense Based Comparison				
Total Expenses Plus Income Tax	$14,396,000	$14,303,000	$14,373,000	$14,306,000
Total Taxes	$894,000	$801,000	$871,000	$804,000
Tax Component	6.2%	5.6%	6.1%	5.6%

BRITISH COLUMBIA SAWMILL
TAXED IN THE INDICATED JURISDICTION

I. SUMMARY INCOME STATEMENTS (Average Profit Year)

	British Columbia	Ontario	Washington	Oregon
	$	$	$	$
REVENUE	30,330,000	30,330,000	30,330,000	30,330,000
EXPENSES				
Non-Tax	22,124,000	22,124,000	22,124,000	22,124,000
Fixed Taxes	369,000	132,000	190,000	243,000
Volume Sensitive Taxes	767,000	618,000	1,184,000	1,088,000
Stumpage	3,137,000	1,482,000	2,441,000	2,441,000
Total	26,397,000	24,356,000	25,939,000	25,896,000
INCOME BEFORE INCOME TAXES	3,933,000	5,974,000	4,391,000	4,434,000
Income Taxes	1,743,000	2,515,000	2,096,000	2,306,000
NET INCOME	2,190,000	3,459,000	2,295,000	2,128,000

II. TAX SUMMARY (Average Profit Year)

Federal	$	$	$	$
Volume Sensitive Taxes	260,000	260,000	393,000	393,000
Income Tax	976,000	1,770,000	2,096,000	1,952,000
	1,236,000	2,030,000	2,489,000	2,345,000
Provincial/State/Local				
Fixed and Volume Sensitive Taxes	876,000	490,000	981,000	938,000
Stumpage	3,137,000	1,482,000	2,441,000	2,441,000
Income Taxes	767,000	745,000	—	354,000
	4,780,000	2,717,000	3,422,000	3,733,000

III. TAX COMPARISONS (Average Profit Year)

Income Based Comparison				
Net Income Before All Taxes and Stumpage	$8,206,000	$8,206,000	$8,206,000	$8,206,000
Total Taxes Plus Stumpage	$6,016,000	$4,747,000	$5,911,000	$6,078,000
Tax Percentage	73.3%	57.8%	72.0%	74.1%
Expense Based Comparison				
Total Expenses Plus Income Taxes	$28,140,000	$26,871,000	$28,035,000	$28,202,000
Total Taxes Plus Stumpage	$6,016,000	$4,747,000	$5,911,000	$6,078,000
Tax Component	21.4%	17.7%	21.1%	21.6%

BRITISH COLUMBIA HIGH TECHNOLOGY FIRM
TAXED IN THE INDICATED JURISDICTION

I. SUMMARY INCOME STATEMENTS (Average Profit Period)

	British Columbia	Ontario	California
	$	$	$
REVENUE	10,413,000	10,413,000	10,413,000
EXPENSES			
Non-Tax	7,088,000	7,088,000	7,088,000
Fixed Taxes	42,000	63,000	16,000
Volume Sensitive Taxes	198,000	148,000	272,000
Total	7,328,000	7,299,000	7,376,000
INCOME BEFORE INCOME TAX	3,085,000	3,114,000	3,037,000
Income Tax	1,244,000	1,194,000	1,507,000
NET INCOME	1,841,000	1,920,000	1,530,000

II. TAX SUMMARY (Average Profit Period)

	$	$	$
Federal			
Volume Sensitive Taxes	99,000	100,000	157,000
Income Tax	775,000	789,000	1,231,000
	874,000	889,000	1,388,000
Provincial/State/Local			
Fixed and Volume Sensitive Taxes	141,000	111,000	131,000
Income Tax	469,000	405,000	276,000
	610,000	516,000	407,000

III. TAX COMPARISONS (Average Profit Period)

Income Based Comparison			
Net Income Before All Taxes	$3,325,000	$3,325,000	$3,325,000
Total Taxes	$1,484,000	$1,405,000	$1,795,000
Tax Percentage	44.6%	42.3%	54.0%
Expense Based Comparison			
Total Expenses Plus Income Tax	$8,572,000	$8,493,000	$8,883,000
Total Taxes	$1,484,000	$1,405,000	$1,795,000
Tax Component	17.3%	16.5%	20.2%

BRITISH COLUMBIA COPPER MINE
TAXED IN THE INDICATED JURISDICTION

I. SUMMARY INCOME STATEMENTS (Average Profit Period)

	British Columbia	Ontario	Arizona
	$	$	$
REVENUE	2,258,600,000	2,258,600,000	2,258,600,000
EXPENSES			
Non-Tax	1,691,846,000	1,690,900,000	1,688,652,000
Fixed Taxes	71,924,000	63,744,000	80,525,000
Volume Sensitive Taxes	111,393,000	70,376,000	56,927,000
Total	1,875,163,000	1,825,020,000	1,826,104,000
INCOME BEFORE INCOME TAXES	383,437,000	433,580,000	432,496,000
Income Taxes	155,600,000	212,106,000	170,955,000
NET INCOME	227,837,000	221,474,000	261,541,000

II. TAX SUMMARY (Average Profit Period)

Federal	$	$	$
Volume Sensitive Taxes	37,355,000	37,355,000	32,490,000
Income Tax	58,330,000	78,705,000	137,543,000
	95,685,000	116,060,000	170,033,000
Provincial/State/Local			
Fixed and Volume Sensitive Taxes	145,962,000	96,765,000	104,962,000
Income Taxes	97,270,000	133,401,000	33,412,000
	243,232,000	230,166,000	138,374,000

III. TAX COMPARISONS (Average Profit Period)

Income Based Comparison			
Net Income Before All Taxes	$566,754,000	$567,700,000	$569,948,000
Total Taxes	$338,917,000	$346,226,000	$308,407,000
Tax Percentage	59.8%	61.0%	54.1%
Expense Based Comparison			
Total Expenses Plus Income Taxes	$2,030,763,000	$2,037,126,000	$1,997,059,000
Total Taxes	$338,917,000	$346,226,000	$308,407,000
Tax Component	16.7%	17.0%	15.4%

APPENDIX D

PROVINCIAL TAXES

TABLE D1

CONSOLIDATED REVENUE FUND
Revenue by Source

	Actual 1980/81	Actual 1981/82	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85	Average Annual Rate of Growth 1980/81 to 1984/85
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	1,369.2	1,848.2	2,008.2	1,813.0	2,148.0	11.9
Corporation income	456.6	580.0	188.5	306.0	383.0	(4.3)
Social service	758.0	1,129.5	999.5	1,210.0	1,371.0	16.0
Fuel	231.5	371.4	389.0	412.0	442.0	17.5
Tobacco	74.7	102.9	109.1	137.0	156.0	20.2
Corporation capital	52.7	89.8	83.8	85.0	97.0	13.4
Property	26.0	43.4	40.7	38.0	41.0	12.1
Insurance premium	17.5	20.2	21.1	22.0	23.0	7.1
Hotel room	15.5	23.7	22.6	23.0	25.0	12.7
Horse racing	6.0	7.6	7.2	8.0	8.0	7.5
Succession and gift	0.9	—	—	—	—	—
Total, taxation revenue	3,008.6	4,216.7	3,869.7	4,054.0	4,684.0	11.7
Natural Resource Revenue:						
Petroleum and natural gas:						
B.C. Petroleum Corporation	208.3	219.9	96.0	125.0	116.0	(13.6)
Permits and fees	156.5	69.8	49.3	67.0	61.0	(21.0)
Royalties	50.9	67.2	83.5	94.0	96.0	17.2
Minerals	119.6	62.4	32.5	29.0	42.0	(23.0)
	535.3	419.3	261.3	315.0	315.0	(12.4)
Forests:						
Logging tax	45.6	12.3	2.1	1.0	2.0	(54.2)
Timber sales	233.5	78.4	64.7	113.0	140.0	(12.0)
Other forests revenue	21.2	16.0	16.1	25.0	21.0	(0.2)
	300.3	106.7	82.9	139.0	163.0	(14.2)
Water resources	20.2	65.0	187.4	172.0	189.0	74.9
Wildlife Act	6.2	6.6	10.9	11.0	12.0	17.9
Total, natural resource revenue	862.0	597.6	542.5	637.0	679.0	(5.8)

TABLE D1

CONSOLIDATED REVENUE FUND

Revenue by Source—*Continued*

	Actual 1980/81	Actual 1981/82	Actual 1982/83	Revised Forecast 1983/84	Estimate 1984/85	Average Annual Rate of Growth 1980/81 to 1984/85
			($ millions)			(per cent)
Other Revenue:						
Sales and services	125.8	178.4	150.4	168.0	186.0	10.3
Licences and permits:						
Motor-vehicle licences and permits	81.5	103.5	102.1	114.0	118.0	9.7
Other	36.0	41.8	44.0	47.0	52.0	9.6
	117.5	145.3	146.1	161.0	170.0	9.7
Fines and penalties	14.7	19.0	15.3	18.0	19.0	6.6
Interest from investments	225.7	211.5	91.3	75.0	70.0	(25.4)
Miscellaneous	76.6	78.7	90.3	53.0	50.0	(10.1)
Total, other revenue	560.3	632.9	493.4	475.0	495.0	(3.1)
Contributions from Government Enterprises:						
Liquor Distribution Branch	274.6	315.8	337.9	347.0	370.0	7.7
B.C. Buildings Corporation	17.0	8.0	—	—	—	—
B.C. Systems Corporation	1.5	2.7	—	—	—	—
Total, contributions from government enterprises	293.1	326.5	337.9	347.0	370.0	6.0
Contributions from Federal Government:						
Established Programs Financing	638.4	643.9	652.4	935.0	871.0	8.1
Canada Assistance Plan	312.8	320.1	460.0	520.0	501.0	12.5
Other	125.3	118.3	103.2	121.0	119.0	(1.3)
Total, contributions from federal government	1,076.5	1,082.3	1,215.6	1,576.0	1,491.0	8.5
Non-Recurring Revenue	2.2	47.4	70.0	14.0	—	—
TOTAL REVENUE	5,802.7	6,903.4	6,529.1	7,103.0	7,719.0	7.4

TABLE D2

PROVINCIAL TAXES

Type	Title and Statutory Reference	Tax Base	Tax Rate	Characteristics
Income	*Income Tax Act* (R.S.B.C. 1979, c. 190; 1980, c. 12, s. 7; 1980, c. 50, s. 46; 1981, c. 6; 1982, c. 18; c. 58; 1983, c. 18; 1984, c. 6; c. 13)	Net income: (1) Corporation	16% of taxable income (8% for small businesses)	Collected under agreement by Revenue Canada—Taxation.
		(2) Personal	44% of basic federal tax payable; 10% surtax on British Columbia tax in excess of $3,500; health care maintenance surtax of 4% in 1984 and 8% in 1985 and subsequent years	Reduction of tax where taxable income is $2,980 or less in 1984; refundable tax credit for investors in British Columbia Housing and Development Bonds of 13.5% to individuals; 8% to corporations eligible for the small business tax rate and 16% to other corporations; other non-refundable tax credits for claim against personal and corporate income tax include: Logging Tax Credit, Provincial Political Contributions Tax Credit and Provincial Royalty Tax Rebate.
Capital	*Corporation Capital Tax Act* (R.S.B.C. 1979, c. 69; 1980, c. 4; c. 36, s. 16; 1982, c. 6; c. 43, s. 8; 1983, c. 6, s. 1-2)	Taxable paid-up capital of $1,000,000 or more; graduated rate effective for paid-up capital between $1,000,000 and $1,250,000	General: ⅛ of 1% Banks: 2 per cent if taxable capital exceeds $500 million; ⅛ of 1 per cent if taxable capital is less than $500 million Trust Companies and Loan Companies: ⅜ of 1%	Exemptions—Corporations with paid-up capital under $1,000,000, credit unions, co-operatives, self-owned apartment corporations, corporations exempt under section 149 (1) of *Income Tax Act* (Canada), family farms.
Inheritance (repealed)	*Succession Duty Act*			
Probate (repealed)	*Probate Fee Act*			
Gift (repealed)	*Gift Tax Act*			
Retail sales	*Social Service Tax Act* (R.S.B.C. 1979, c. 388; 1980, c. 52; c. 10, s. 119; c. 49, s. 12; 1981, c. 8; c. 29; c. 15, s. 159-160; 1982, c. 39; 1983, c. 27; c. 6, s. 30–34; c. 20, s. 49–51)	Purchase and lease price of tangible personal property	General rate 7% Liquor 7%	Collected through vendors and lessors registered under the act, and (or) paid by purchaser; provides for exemptions on restaurant meals priced at less than $7.00 and food for human consumption, draft beer, coal and coke, fuels taxed under other acts, specified farm implements and machinery when purchased by a *bona fide* farmer, fishing boats and equipment when purchased by a *bona fide* commercial fisherman, water, prescribed medicaments, vitamins and dietary supplements, diabetic and ostomy supplies, hearing-aids, dentures, specified equipment for the handicapped, prescribed dental and optical appliances, specified catalysts and direct agents, agricultural feeds, seeds, fertilizers, insecticides, etc., sales at less than 15¢, ships of more than 500 tons, children's clothing and footwear, books, periodicals and magazines, specified school supplies, candies and soft drinks, tobacco products taxable under the *Tobacco Tax Act*, certain energy conservation equipment and material, patent medicines, local residential telephone services, telecommunication services, electricity, natural gas and fuel oil purchased for residential use, used mobile homes, yard goods and patterns, work-related safety equipment designed to be worn, bicycles, transporting devices for the handicapped, smoke alarms, oxygen and related dispensing equipment used for medical purposes, children's safety car seats, specified marine and highway safety-related equipment.

TABLE D2

PROVINCIAL TAXES—*Continued*

Type	Title and Statutory Reference	Tax Base	Tax Rate	Characteristics
Accommodation	*Hotel Room Tax Act* (R.S.B.C. 1979, c. 183; 1981, c. 5, s. 31-32; c. 15, s. 103; 1982, c. 10, s. 12–22; 1983, c. 6, s. 13–16; 1984, c. 4; c. 26, s. 73)	Purchase price of accommodation	7%	Exemptions include accommodations over a two-month period; charges of $10 or less per day; charitable institutions; and trailer parks and campsites.
Tobacco	*Tobacco Tax Act* (R.S.B.C. 1979, c. 404; 1981, c. 5, s. 55–57; c. 15, s. 164; 1982, c. 29; 1983, c. 11; c. 6, s. 38–40)	By cigarette, cigar retail price, and weight on other tobacco products	2.24¢ per cigarette; 3¢ to 30¢ per cigar, 70% of retail price on cigars of more than 49¢; 13¢ per ½ oz. of tobacco (or 24¢ for 25 grams)	Tax rates on cigarettes and tobacco adjusted semi-annually, based on Vancouver consumer price index subcomponent for tobacco products. Rates quoted effective March 1, 1984 to August 31, 1984.
Motor fuel	*Gasoline Tax Act* (R.S.B.C. 1979, c. 152; 1980, c. 12, s. 3; 1981, c. 5, s. 16–20; 1982, c. 13; 1983, c. 6, s. 10-11)	Per litre	Gasoline 7.66¢ Aircraft fuel 5.02¢	Refunds available in specific circumstances defined in the Act and regulations. All quoted tax rates effective July 1, 1984 to September 30, 1984. Rates adjusted quarterly. Gasoline tax rate adjusted to equal 20% of Vancouver retail price less provincial taxes. Exact formula in S.B.C. 1981, c. 5. Aviation fuel tax rate to equal prevailing gasoline tax rate less 2.64¢ per litre. Handicapped eligible for 100% rebate of gasoline tax. Compressed natural gas and propane used to propel motor vehicles exempt.
	Gasoline (Coloured) Tax Act (R.S.B.C. 1979, c. 151; 1980, c. 50, s. 44; 1981, c. 5, s. 9–15; c. 21, s. 23-24; 1982, c. 10, s.4–6; 1983, c. 17; c. 6, s. 9)	Per litre	5.02¢	Fuels coloured purple may be used for a variety of specific primary production and industrial purposes. Tax rate adjusted quarterly to prevailing clear gasoline tax rate less 2.64¢ per litre (except for marine bunker fuel). Family farms and commercial fishermen eligible for lower tax rates on coloured gasoline and motive fuels, adjusted quarterly to prevailing clear gasoline tax rate less 3.74¢ per litre. Natural gas used for operating pipeline compressor stations taxed at 1.1¢/810.32 litres; not adjusted quarterly.
	Motive Fuel Use Tax Act (R.S.B.C. 1979, c. 285; 1980, c. 12, s. 12; 1981, c. 5, s. 42-43; 1982, c. 20; 1983, c. 6, s. 23-24)	Per litre	8.10¢	Applies to any fuel except gasoline, natural gas, propane and butane used in a motor-vehicle on a highway. Refunds available in specific circumstances defined in the Act and regulations. Tax rate adjusted quarterly to prevailing gasoline tax rate plus 0.44¢ per litre. Handicapped eligible for 100% rebate of tax.
Race-meetings	*Horse Racing Tax Act* (R.S.B.C. 1979, c. 175; 1980, c. 19; 1982, c. 10, s. 9-10)	Parimutuel betting pool	7%	3.5% of tax paid to increase purses, maintain a breeders incentive fund, make grants for breeders societies, and operate race courses and horse racing meets, and for equine health research. Net rate to province is 3.5%.
Natural resources	*Logging Tax Act* (R.S.B.C. 1979, c. 248; 1981, c. 5, s. 36–33; 1982, c. 10, s. 26-27; 1983, c. 6, s. 19-20; 1984, c. 7, s. 15)	Net income from logging where in excess of $25,000	10% (Fully recoverable against federal and provincial corporation income tax)	Net income from logging after deducting investment and non-forestry income and a processing allowance.
	Mining Tax Act (R.S.B.C. 1979, c. 267; 1980, c. 12, s. 10-11; 1981, c. 5, s. 39–41; 1982, c. 10, s. 28-29; 1983, c. 6, s. 21-22)	All net income from mining operations if mining income exceeds $50,000	15%	Net income from mining after deducting investment and non-mining income and a processing allowance. Tax not applicable to petroleum, natural gas, or minerals taxed under the *Mineral Resource Tax Act*

TABLE D2

PROVINCIAL TAXES—*Continued*

Type	Title and Statutory Reference	Tax Base	Tax Rate	Characteristics
	Mineral Resource Tax Act (R.S.B.C. 1979, c. 263; 1980, c. 27; 1982, c. 43, s. 18–22)	Net income from individual mining operations (metallic minerals) other than coal, sand, gravel and certain other industrial minerals. No tax on first $50,000 for unincorporated mines or partnerships	17.5%	Net income after deductions including: accelerated capital cost allowances, exploration and development expenses, depletion and processing allowances.
	Mineral Land Tax Act (R.S.B.C. 1979, c. 260; 1980, c. 35; 1981, c. 19; c. 20)	Assessed value of mineral land and production tracts	Basic undesignated mineral land; 62¢–$2.47 per hectare	Rates of tax set on sliding scale, dependent on amount and designation of land.
Insurance	*Insurance Premium Tax Act* (R.S.B.C. 1979, c. 205; 1980 c. 12, 5, 8, 9; 1981, c. 5, s. 34; 1982, c. 10, s. 24; 1983, c. 6, s. 17-18; c. 20, s. 27)	Direct premiums written	2%	Exemptions—Benefit societies; mutual corporations with 50% of income from farm or entirely from religious, educational, or charitable institutions; marine; approved medical or hospitalization plans; Insurance Corporation of British Columbia (basic auto insurance only). Exemptions—Insurance Corporation of British Columbia (basic automobile insurance only).
	Fire Services Act (R.S.B.C. 1979, c. 133; 1980, c. 13; 1981, c. 15, s. 95; 1982, c. 49)	Direct premiums written for fire hazard.	1%	Exemptions—Insurance Corporation of British Columbia (basic automobile insurance only).
Real Property	*Taxation (Rural Area) Act* (R.S.B.C. 1979, c. 400; 1980, c. 12, s. 17-18; c. 18, s. 21-22; c. 49, s. 14; 1981, c. 5, s. 52-54; 1982, c. 27-28; 1983, c. 24, s. 37; c. 6, s. 36-37; c. 20, s. 52; 1984, c. 25, s. 65)	Assessed value of land and improvements in rural areas (outside municipalities). Assessment determined under *Assessment Act*		Property is assessed at actual value. Different tax rates apply to different classes of property.
			Residential (0.13%)	Includes residential property, vacant land having no present use which is not specifically held for business, commercial, forestry or industrial purposes.
			Utilities (0.46%)	Property used or held for transportation by railway, transportation by pipeline, communication by telephone or telegraph, transmission of electricity or transmission of closed circuit television.
			Forestry (0.40%)	Timberland, forest land and wild land used for forestry purposes.
			Industrial (0.44%)	Generally includes property used or held for the purpose of extracting, processing, manufacturing, transporting or storing of any product.
			Tree Farm (0.80%)	Property managed as a tree farm. To encourage sustained yield forestry practices on privately owned forest land, assessed value is capitalized net return. Crown land held under a tree farm licence or an agreement under the *Forest Act* is exempt.
			Seasonal Resort, Recreational Property and Fraternal Organization (0.13%)	Property used on a seasonal basis to provide overnight sleeping accommodation, land used for golf, skiing, tennis, ball games of any kind or lawn bowling, and property used by non-profit organizations under specified conditions.
			Farm (0.05%)	Land used for farming. Improvements on farmland exempt, fruit trees exempt. Assessed at value as a farm.
			Business/Other (0.32%)	All property not contained in any other class.